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LANSING

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TO: Participating Schools and Lenders

FROM: Diane Todd Sprague, Director

DATE: February 23, 2005

SUBJECT: Educational Loan Notes

2005 DEFAULT AVERSION BEST PRACTICES SYMPOSIUM

The Michigan Guaranty Agency (MGA) is pleased to announce the 2005 Default Aversion Best Practices Symposium scheduled for Tuesday, March 29, 2005, at the Schoolcraft College VisTaTech Center in Livonia, Michigan.

The symposium will be highlighted by two prominent and nationally acclaimed authorities on financial literacy:

Laura Levine, Executive Director of the JumpStart® Coalition, has worked with students, parents, schools, and non-profit organizations throughout the country in building a heightened awareness about early financial literacy with young adults. JumpStart works closely with Congressional leaders in finding ways to include financial literacy in today's educational curriculum. Ms. Levine recently presented at the National Council of Higher Education Loan Programs (NCHELP) Fall Training Conference on Personal Financial Literacy.

Carl George, CPA, currently chairs the National CPA Financial Literacy Commission sponsored by the American Institute of Certified Public Accountants (AICPA). AICPA authored *360 Degrees of Financial Literacy*, a multi-faceted, comprehensive approach to advancing financial education. The program focuses on financial literacy topics that apply specifically to a particular stage of life from school children to retirees. The section devoted to college students promotes their ability to make wise financial choices, understand money and financial issues, and plan for their financial futures, thereby avoiding excessive debt and eventual default.

Additionally, breakout sessions will allow schools to talk openly about some of the default aversion activities that have worked well at their own institutions. These open forums will allow directors, associate directors, default

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aversion specialists, and others interested in financial literacy or default aversion to collaborate on default aversion activities. Following are your financial aid colleagues who have graciously volunteered to facilitate the breakout sessions:

Susan Crkovski, Executive Director
Office of Financial Aid
Davenport University System

Rick Shipman, Director
Office of Financial Aid
Michigan State University

Linda Sigh, Assistant Director
Office of Financial Aid
Michigan State University

Although MGA has seen a dramatic decrease in its cohort default rate, and many schools have experienced similar results, more can and should be done. Student loan default is a challenge that everyone in the financial aid community shares. Helping students avoid the consequences of default not only benefits a school, but can also be a personally rewarding experience! The symposium will concentrate on specific action schools can take to directly decrease their cohort default rates. The focus of the symposium will be on financial literacy and comprehensive default aversion strategies, with an emphasis on some of the best practices from around the country.

We hope you can join us for this special event. Registration and continental breakfast will begin at 9:00 a.m., with the first session starting at 9:30 a.m. Lunch will be provided, and we plan to conclude at approximately 3:00 p.m.

Registration materials were sent via email February 10, 2005. You may also register online by going to our Web site at Michigan.gov/mistudentaid. On our homepage listed under "What's New" is a link to the online registration form. If you have any questions concerning the symposium, please contact Justin Draeger at draegerj@michigan.gov, or 1-800-642-5626, extension 31940.

PRELIMINARY COHORT DEFAULT RATES

The U.S. Department of Education (ED) on February 14, 2005, released the 2003 Preliminary Cohort Default Rates. We are pleased to announce that MGA's 2003 preliminary Cohort Default Rate decreased 2.2 percent from the 2002 rate.

	<u>Rate</u>	<u>Defaulted Borrowers</u>	<u>Borrowers in Repayment</u>
2002	7.8%	2,109	26,485
2003	5.6%	1,630	28,900

Many schools have contacted MGA to announce similar results in their preliminary rates. Schools are reminded that challenges to the draft Cohort Default Rate must be submitted to Dan Tryon in MGA's Audit and Program Review Section within 45 days of the official transmittal date. Information for submitting a challenge is available in the [Cohort Default Rate Guide](#) for schools available on the IFAP Web site. From the main page, choose [Cohort Default Rate Guide](#) under the listing for Publications. For more information contact Dan Tryon at extension 34981 or via email tryond@michigan.gov.

INTRODUCING MGA'S NEW CUSTOMER SERVICES REPRESENTATIVE

The Michigan Guaranty Agency is pleased to introduce Mary Kay Seymour, our newest representative in the Customer Services Unit. Mary Kay joined our agency earlier this month and is already working on customer requests.



Mary Kay Seymour

Mary Kay comes to MGA from the Michigan Higher Education Student Loan Authority's (MHESLA) MI-LOAN Program, where she had extensive experience working with student loan

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origination, customer service, and problem solving, as well as mainframe and PC database knowledge. She has had many years of experience working with students, borrowers, lenders, and servicers. Her employment with the State of Michigan brings more than 20 years of experience in the customer services area.

Mary Kay lives with her son, Pete, in Grand Ledge. A freshman at Lansing Catholic Central, Pete plays basketball, and his summer hobby is golf. Soon Pete will be taking driver's education, and he is looking forward to the opportunity to chauffeur his Mom around town.

Mary Kay can be reached at extension 30762, or via email at seymourm@michigan.gov. If you have not yet had the opportunity to speak with Mary Kay, please join us in welcoming her to the agency.

LIFE SKILLS TRAIN-THE-TRAINER WORKSHOP AT MICHIGAN STATE UNIVERSITY

A Life SkillsSM workshop held January 25 at Michigan State University (MSU) was a resounding success. A total of 36 MSU staff attended the workshop learning the financial literacy program that helps students manage their finances and complete their degrees or programs on time.

Cynthia Waisner, Managing Partner of Catalyst Consulting Partners, LLC, an organization development and strategy consulting firm, facilitated the Life Skills workshop. From her experience with the pilot phase of the Life Skills program she has designed student assessments and interactive student activities that she shared at the workshop. Cynthia presented each of the five modules and hands-on activities with enthusiasm.

Module One, "Get a Grip on Your Finances: Smart Spending for Students," is designed to teach students strategies for managing their money wisely while they are in school. Cynthia had participants play "What Can You Expect To Earn," an activity that compared



MSU Staff at Life Skills Workshop

job titles and locations with corresponding salary ranges and median salary information. Module Two, "Seek Out Financial Aid: Funding Resources and Financial Obligations," teaches students strategies for obtaining financial aid and helps them grasp the accompanying rights, obligations, and responsibilities.

Module Two's activity introduced by Cynthia was "ZINGO." This game was extremely fun and followed the format of "BINGO" but used financial aid game clues and answers.

Module Three, "Work Hard But Smart: How to be Successful in School and Graduate on Time," is designed to teach students strategies for succeeding in college and for completing their education in a timely manner. To prepare for the Module Three activity, "Time Preference, Sparrows and Owls," Cynthia explained that each person is either a morning person (sparrow) or a night person (owl). This activity asked the participants to generate student scheduling tips according to whether they were a sparrow or an owl.

Module Four, "Take Control of Your Future: Finishing School and Repaying Your Loans," teaches students to set reasonable career expectations, understand the importance of student loan repayment, and develop strategies that will help them repay their student loans. Cynthia presented an activity called "Credit Card Quotefalls" which is a puzzle that the participants had to solve.

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Module Five, “Now that You Are About to Graduate: Taking Control of Your Life,” is designed to prepare students for employment, help them live within their means, and reinforce students’ loan repayment options, responsibilities, and obligations. Cynthia demonstrated this module by using the “Intro to Budgeting” game from the Life Skills CD.

MSU staff thoroughly enjoyed the workshop. They are currently using Module One and the Smart Spending puzzle for new students, and they are exploring the implementation of the following ideas:

- Creating a link to Salary.com from their Web site.
- Placing some of the activities from Modules One through Five in the reception area for students to utilize while waiting.
- Utilizing Module Five for exit counseling.
- Using Quicken® as a tool to counsel students when they are paying a previous semester debt with current financial aid.

Those in attendance at the workshop noted that Cynthia is a wonderful presenter and that they had fun while they were learning the Life Skills information.

For information about setting up a Life Skills Workshop at your school for your interested employees, contact MGA’s School Services Unit at extension 36074.

** Life Skills is a registered service mark of USA Funds.*

SYNOPSIS OF MSFAA WINTER CONFERENCE TOWN HALL MEETING

The Bureau of Student Financial Services, which comprises four divisions, continues to streamline processes in order to meet the needs of their customers. Patricia Scott, Bureau Director, announced new initiatives that will help the bureau meet that goal.

One such initiative is the centralization of the Program Review process in order to improve communication and minimize the number of contacts made with institutions by the State. The Program Review Standards, providing information and timelines on the procedures for

scheduling requests for information prior to a review, the entrance and exit interviews, the issuance of a draft report, school response, and the final report, were distributed during the town hall meeting. The March issue of *Educational Loan Notes* will provide more detailed information about the Program Review Standards.

The Office of Scholarships and Grants (OSG) announced a new email address for all state-funded scholarship and grant programs: osg@michigan.gov. In addition, OSG eliminated all but one toll-free number: 1-888-4-GRANTS. In a continuous effort to improve services, OSG has consolidated the policies and procedures manual for all programs and has made it available online at michigan.gov/mistudentaid. Select “Financial Aid Administrators” on the navigation bar at the left then select “Manuals” to access the manual. Looking ahead, OSG plans to migrate the Michigan Merit Program award (MMP) to the Web-based system used to award the Michigan Competitive Scholarship (MCS) and Michigan Tuition Grant (MTG).

In addition to streamlining processes, Anne Wohlfert, Director of the Office of Scholarships and Grants, provided information about the MCS, MTG, and MMP programs. The MCS and MTG programs are adhering to strict requirements that all payments will be made on verified data only. For the Merit Award, a new certification deadline of November 15 was announced. This new deadline replaces the September 15 date. Ms. Wohlfert also provided information on the “new” Michigan Merit Exam (MME). The first pilot test for the “new” MME is scheduled for spring 2006. The class of 2007 will have the option to take either the old or new test. The old test will be discontinued in fall 2007.

Gary Harvey, Director of the Michigan Higher Education Student Loan Authority and the Office of Fiscal Affairs, provided information on the Michigan Students First (MSF) program, the Michigan Advantage Consolidation Loan Program, and the MI-LOAN program. The MSF program was first introduced on January 1, 2003, with reimbursement of the origination fee and zero percent (0%) interest after 36 on-time

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monthly payments for those who qualify. Since the introduction of the program 109,000 students from 130 schools have benefited from this program. The Michigan Advantage Consolidation Loan Program will soon be offering a one percent (1%) reduction in interest after 36 on-time payments.

Mr. Harvey announced that MHESLA is partnering with Mapping Your Future to develop an online alternative loan counseling site. He also highlighted recent and upcoming changes to the MI-LOAN program. MI-LOAN has expanded the period for requesting loan adjustments from the end of the loan period to one month following the end of the loan period. In addition, the application submission period was reduced from “no less than five (5) months less than three (3) months prior to the beginning of the loan period.” MI-LOAN will soon offer an electronic application process with E-signature.

The Michigan Guaranty Agency provided information on the National Association of Student Financial Aid Administrators (NASFAA) Peer Review Program and on MGA’s upcoming Best Practices Symposium. Diane Todd Sprague, Director, informed participants of the Best Practices Symposium scheduled for Tuesday, March 29, 2005, at Schoolcraft College’s VisTaTech Center.

Ms. Sprague announced that MGA will partner with institutions who participate in the NASFAA Peer Review Program by providing funds to cover a portion of the costs of the review. The objective of the program is to provide a confidential peer review that assesses an institution’s delivery of financial aid. These reviews are conducted on-site and are designed to highlight strengths and recommend improvements.

Finally, Robin McMillan, Director of the Michigan Education Trust (MET) and the Michigan Education Savings Program (MESP) provided updated program information. Ms. McMillan announced the new MET marketing campaign, “Tomorrow’s Tuition...Set with MET!” The enrollment period for this new campaign is September 1, 2004, through

June 15, 2005. In addition, the following changes were announced for MET and MESP.

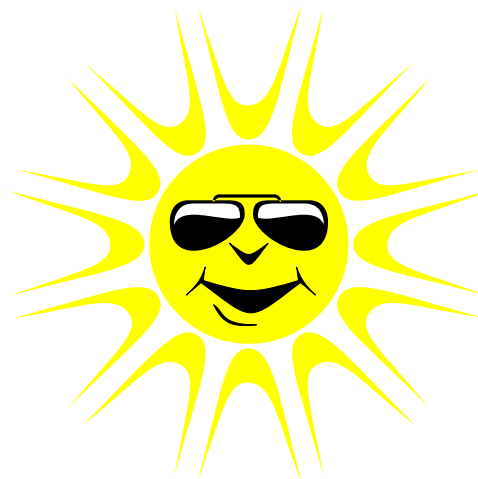
MET

- The processing fee for online enrollment has been discounted.
- Contracts are now being offered through 12th grade.
- A monthly purchase option with a 15-year duration is now being offered.
- An early payment discount is also available for monthly purchases.
- The MET statute now allows for termination or transfer after the halfway point provided the MET Board has approved the transfer.

MESP

- The MESP match funds were approved for 2004-05.
- The MESP account owner may now be a trust.
- Net contributions are now deductible.
- Recapture provisions have been modified.
- Family Independence Agency (FIA) will disregard 529 savings for public assistance eligibility.

Attached to this issue of *Educational Loan Notes* is a summary chart listing the four divisions within the Bureau of Student Financial Services and their major areas of responsibility. Questions should be directed to Stephanie Bogard, Training and Development Section, at extension 12101, or via email at bogards1@michigan.gov.



NSLDS REPORTING REMINDER

Federal law requires lenders and lender servicers to report to their guarantors all status changes throughout the life of a loan. MGA encourages its lenders to report status changes on a monthly basis. It is crucial that loan information is updated and reported in a timely manner so MGA loan data will match the information on the lender's system. This will ensure that the information sent to the National Student Loan Data System (NSLDS) is accurate.

Status changes to report include, but are not limited to:

- Enrollment status changes.
- Cancellation of all or a portion of the loan.
- Loan sales or transfers.
- Disbursement date changes.
- Date loans enter repayment.
- Loans that have been paid-in-full or consolidated.

Forms currently used by lenders to report changes are:

- Loan Maintenance form.
- Loan Change form.
- Disbursement Change form.
- Borrower/Student Personal Information form.
- Sub/Unsub Reallocation form.

If you need to order forms please visit our Web site at michigan.gov/mistudentaid; click on "Resources" and then "Ordering Supplies." If you require assistance with reporting to the NSLDS or have other questions or concerns regarding NSLDS reporting, please contact Betty Calloway, Lender Services Specialist, at extension 39639, or via email at callowayb@michigan.gov.

**DISPOSAL OF
CONSUMER INFORMATION**

The Federal Deposit Insurance Corporation (FDIC) recently released a "Financial Institution Letter" to all federally insured lenders notifying them of new guidelines that implement Section 216 of the Fair and Accurate Credit Transactions

Act of 2003. Section 216 was developed to establish standards for protecting consumers against the risks associated with identity theft and other types of fraud.

Lenders are required to assess their current procedures for disposing of consumer information (i.e., credit reports, bank records, etc.). They must then take the necessary steps to put in place new policies and procedures based on Section 216 guidelines to ensure that consumer information is disposed of in such a manner that the information cannot be retrieved. Lenders must satisfy these guidelines by July 1, 2005.

Furthermore, lenders contracting with private companies to dispose of their bank records and consumer information must let the third party know that they are responsible for disposing of the information so it can not be retrieved. Lenders must modify any affected contract(s) with service providers no later than July 1, 2006.

Copies of the FDIC's Financial Institution Letter may be obtained from the following link: <http://www.fdic.gov/news/news/financial/2005/fil705.html>. To receive a copy of the Federal Register with the final guidelines, click on the attachment at that site.

If you have questions regarding this matter, please contact Betty Calloway at extension 39639, or via email at callowayb@michigan.gov.

**CHANGES TO
SPECIAL ALLOWANCE
PAYMENT CALCULATIONS**

The U.S. Department of Education (ED) has published Dear Colleague Letter (DCL) FP-05-01 that provides details of recent changes to special allowance calculations for loans made or purchased with the proceeds of tax-exempt obligations. These changes result from the Taxpayer-Teacher Protection Act of 2004.

The DCL explains that some loans financed with tax exempt funds that were issued prior to October 1, 1993, received special allowance at a

rate that was generally one-half of the rate

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established for other loans. With the enactment of the Taxpayer-Teacher Protection Act of 2004, the special allowance paid on some of those loans will revert to the usual rates paid on other loans that are specified in subparagraphs (A), (E), (G), (H), or (I) of section 438(b)(2) of the Higher Education Act of 1965, as amended.

A copy of the DCL with additional information can be obtained from the following link: <http://www.ifap.ed.gov/dpceletters/FP0501.html>. If you have questions regarding this matter please contact Betty Calloway at extension 39639 or via email at callowayb@michigan.gov.

THE “ED” PIPELINE

Following is a list of some of the most recent ED correspondence for schools and lenders.

Dear Partner
January 2005
[ANN-05-02](#)

This letter announces a series of one-day workshops on *Managing Audits and Program Reviews: Paths for Success*, which will also cover self-assessment tools for postsecondary institutions to use. It also provides a link to FSA’s new registration system, where all workshops and locations are listed.

Dear Partner
January 2005
[ANN-05-01](#)

This letter announces FSA’s release of the first of two Web-based 2005-06 EDEExpress Basics training modules.

Dear Partner
January 2005
[FP-05-01](#)

This letter provides a brief description of the recent changes made by the “Taxpayer-Teacher Protection Act of 2004” to the calculation of special allowance payments for loans made (directly or indirectly) with the proceeds of tax-exempt obligations.

LENDER LIST UPDATES

School personnel should record the following actions on the "Participating Lender List" dated October 25, 2004. Please make the appropriate changes in all sections of the list as needed. If you have any questions regarding these updates, please contact Pat Fromm at extension 36076.

Name Change

Chela Financial Inc/UBOC ELT, 820192, changed its name to Chela Funding I, LLC.

Chela Financial Inc/UBOC ELT, 821623, changed its name to Chela Funding I, LLC.

SCHOOL LIST UPDATES

The new "Active Michigan School List" dated January 31, 2005, was mailed the first week of January. The following updates should be recorded. If you have any questions regarding

these changes, please contact Stacy Cardwell at extension 36074.

Newly Participating FFELP School**Career Quest Learning Center, East Lansing, 039153-00**

The physical location is 5000 Northwind Drive, Suite 120, East Lansing, MI 48823. Todd Brewer is the Director. His telephone number is 888-810-6080, fax number is 517-318-3331, and email address is tbrewer@careerquest1.com.

Email Address Changes**Flint Institute of Barbering, Inc., Flint, 011098-00**

Martha Poulos' new email address is flintbarbers@sbcglobal.net.

Schoolcraft College, Livonia, 002315-00

Regina Mosley's email address is rmosley@schoolcraft.edu.

“Q” AND “A”**BORROWER ELIGIBILITY - ELIGIBLE CITIZENS AND ELIGIBLE NON-CITIZENS****What citizenship criteria must a borrower meet before being eligible for a Federal Stafford or PLUS loan?**

To qualify for any Federal Stafford or PLUS loan each student, parent, and student for whom a PLUS loan is being sought must be a U.S. citizen or national, or an eligible non-citizen.

What is the difference between a U.S. citizen, national, or an eligible non-citizen?

The term “U.S. citizen” includes citizens of any of the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and the Northern Mariana Islands. All U.S. citizens are considered U.S. nationals. However, not all nationals are U.S. citizens. For example, natives of American Samoa and Swain’s Island are not U.S. citizens, but are nationals and are therefore eligible.

Non-citizens are permanent residents who are legally permitted to live and work in the U.S. permanently. Non-citizens include refugees, persons granted asylum by the United States, conditional entrants (discontinued after March 31, 1980), and Cuban-Haitian entrants.

Ineligible non-citizens include temporary residents (those who work and live under the Legalization or Special Agricultural Worker program) and residents with nonimmigrant visas (i.e., those with work visas, students, visitors, and foreign government officials).

How will citizenship eligibility be determined?

To verify the eligibility status of all Title IV applicants, ED cross-references Social Security Numbers and A-Numbers (A-Numbers are assigned to all legal immigrants) taken from the Free Application for Federal Student Aid (FAFSA) with their respective agencies.

If the match confirms the student’s citizenship eligibility, the student may receive loan funds. If ED is unable to confirm the applicant’s citizenship, they will commence with an automated secondary confirmation through other federal agencies.

If the applicant’s citizenship eligibility cannot be confirmed with any federal agencies, the school must use a paper secondary confirmation. The student will be required to provide documentation showing that he or she is an eligible applicant.

What types of documentation are required to complete the paper secondary confirmation?

Documents that confirm citizenship eligibility vary greatly depending on the type of non-citizen that is applying for federal aid. Attached to this issue of *Educational Loan Notes* is a summary chart of acceptable documentation for confirming citizenship eligibility. For a complete list see the *Federal Student Aid Handbook*, Volume I Chapter 2, Citizenship, pages 27-41.

What types of data matches are performed on parents?

Parents who are seeking PLUS loans certify that they are citizens, nationals, permanent residents, or other eligible non-citizens on the Federal PLUS Loan Application and Master Promissory Note. In determining the parent borrower’s eligibility for a loan, the lender may rely in good faith on the information provided by the borrower unless there is reason to believe that the information may be false.

If a school has any information or believes that a parent borrower does not meet the citizenship requirements for a federal PLUS loan, the school may not disburse any funds until the borrower’s eligibility has been confirmed.

Have a question you would like to ask? Contact Justin Draeger at extension 31940 or via email at draegerj@michigan.gov to submit your question or to suggest a topic you would like to see discussed in a subsequent issue of *Educational Loan Notes*.

Calendar of Upcoming Events

February

24-25 MGA Offices Move
Program Administration
Guaranty Services
Audit/Program Review
Training and Development

April

12 Mapping Your Future Evening Chat
Deferments, forbearances, and default
prevention.

March

8 Mapping Your Future Daytime Chat
Online and distance education.

9-10 MGA Offices Move
Claim Review
Collections
Administrative Support

22-24 U.S. Department of Education
Spring Conference
John Ascuaga's Nugget
Reno, Nevada

29 2005 Default Aversion
Best Practices Symposium
VisTaTech Center
Schoolcraft College
Livonia, Michigan

**If you need further information
or wish to submit items for the
calendar, please contact Jim
Peterson, Editor, at extension
36944, or via email at
peterstonj@michigan.gov.**

Summary Chart of Acceptable Documentation

As an alternative for a student who is having trouble obtaining replacement USCIS documents, the student may use a G-639 to request photocopies of the original documentation.

Citizen Not Born in United States

Certificate of Citizenship	Must have student's name, certificate number, and the date the certificate was issued.
Certificate of Naturalization	Must have student's name, certificate number, Alien Registration Number, name of the court (and date) where naturalization occurred.
"Certification of Birth Abroad" Form FS-545, DS-1350, or FS-240, "Report of Birth Abroad"	Must have embossed seal "United States of America" and "State Department."
U.S. Passport	

Noncitizen National

U.S. Passport	Must be stamped "Noncitizen National."
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Permanent Resident

"Permanent Resident Card" Form I-551, or the "Alien Registration Receipt Card" Form I-151	
Foreign passport	Must be stamped "Processed for I-551" with expiration date.
I-94	Must be stamped "Processed for I-551" with expiration date, or "Temporary Form I-551," with appropriate information filled in.

Other Eligible Citizen

"Arrival-Departure Record" Form I-94	Must be stamped as a Refugee, Asylum Status, Conditional Entrant (before April 1, 1980), Parolee, Cuban-Haitian Entrant.
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